

Message Text

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FM AMEMBASSY VALLETTA

TO SECSTATE WASHDC 6058

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SUBJECT: MALTA'S BUDGET FOR 1975/76

REF: CERP 200

1. SUMMARY: THE 1975/76 BUDGET PRESENTED BY FINMIN JOSEPH ABELA TO PARLIAMENT ON MARCH 6 IS THE LARGEST IN MALTA'S HISTORY, BOTH IN TERMS OF EXPENDITURE (LM 80.4 MILLION) AND REVENUE (LM70.5 MILLION). THE PROJECTED LM9.9 MILLION DEFICIT WILL BE FINANCED FROM THE CONSOLIDATED FUND, THEREBY REDUCING THE FUND'S ESTIMATED RECORD SURPLUS OF LM11.3 MILLION ON APRIL 1, 1975, TO LM1.4 MILLION BY MARCH 31, 1976. TOTAL GOVERNMENT EXPENDITURES OF LM 13.9 MILLION ARE PLANNED FOR UNDUSTRIAL DEVELOPMENT, TELECOMMUNICATIONS, AIRPORT DEVELOPMENT, AND DRYDOCK AND SHIPYARD CONSTRUCTION. MAJOR SOURCES OF REVENUE WILL BE CUSTOMS DUTIES, RENT FOR NATO DEFENSE FACILITIES, AND INCOME TAX, TOTALLING LM17.3, LM13.3 AND LM10.5 MILLION, RESPECTIVELY. AS PART OF THE BUGET PRESENTATION, MFINMIN ABELA ANNOUNCED A WIDE RANGE OF IMPROVED SOCIAL BENEFITS INCLUDING A YEARLY CHRISTMAS BONUS OF 36 MALTESE POUNDS PER WORKER AND A TWO MALTESE POUND PER WEEK COST OF LIVING WAGE INCREASE. THE TOTAL COST TO THE GOM FOR THESE SOCIAL BENEFITS WILL BE SOME LM6.3 MILLION. HOWEVER, THE FINANCIAL BURDEN FALLING ON PRIVATE INDUSTRY WILL BE MUCH LARGER IF THE CHRISTMAS

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BONUS AND WAGE INCREASE ARE MADE LEGALLY BINDING FOR ALL MALTESE

WORKERS, AS THE GOM INTENDS. END SUMMARY

2. NOTE: UNLESS OTHERWISE INDICATED, ALL AMOUNTS INCLUDED IN THE FOLLOWING REPORT ARE IN MILLIONS OF MALTESE POUNDS, ROUNDED TO THE NEAREST TENTH. ONE MALTESE POUND EQUALS APPROXIMATELY 2.75 U.S. DOLLARS. FIGURES REPORTED AS "REVISED" RELATE TO CHANGES IN PROVISIONAL BUDGETARY ESTIMATES SINCE THE FY74/75 BUDGET WAS APPROVED BY PARLIAMENT LAST YEAR.

3. EXPENDITURE - TOTAL EXPENDITURE PROJECTED UNDER THE 1975/76 BUDGET IS LM 80.4, AN INCREASE OF 23 PERCENT OVER REVISED 1974/75 EXPENDITURE OF LM65.1. SIGNIFICANT ASPECTS ARE AS FOLLOWS:

(A) RECURRENT EXPENDITURE TOTALS LM56.0, UP LM 7.4, OR 15 PERCENT, ABOVE THE REVISED 1974/75 TOTAL OF LM48.6. MAJOR BENEFICIARY PROGRAMS ARE SUBSIDIES, UP LM1.7; LABOR, EMPLOYMENT AND WELFARE, UP LM15.5; MISCELLANEOUS SERVICES, UP LM1.3; HEALTH AND EDUCATION, EACH UP LM0.7; AND PUBLIC WORKS, UP LM0.4.

(B) SPECIAL EXPENDITURE TOTALS LM3.0, WHICH IS LM1.1, OR 58 PERCENT, ABOVE THE REVISED 1974/75 SUM OF LM 1.9. THIS DIFFERENCE IS DUE TO AN APPROPRIATION OF LM1.6 FOR THE NEW ARMS OF THE MALTESE LABOR CORPS, OFFSET BY A DECREASE OF LM0.5 FOR SUNDRY SERVICES.

(C) CAPITAL EXPENDITURE AT LM21.3 IS THE LARGEST EVER BUDGETED. IT IS LM7.9, OR 59 PERCENT, ABOVE THE REVISED 1974/75 TOTAL OF 13.4. IN ACCORDANCE WITH PRIORITIES ESTABLISHED BY THE GOM SEVEN YEAR DEVELOPMENT PLAN, PROJECTS EARMARKED TO RECEIVE THE BULK OF GOVERNMENT INVESTMENT FUNDS ARE THE NEW RED CHINA DRYDOCK AND THE NEW MARSAS SHIPYARD, UP LM2.9 TO LM3.6; IMPROVEMENTS IN THE GOM TELECOMMUNICATIONS SYSTEM, UP LM2.9 TO LM3.7; INDUSTRIAL ENTERPRISE, UP LM1.4 TO LM4.1; AIRPORT IMPROVEMENT, UP LM1.0 TO LM2.5; HEALTH, UP LM0.5 TO LM0.9; AND THE WATER EXPANSION PROGRAM, UP LM0.3 TO LM0.8. ACTIVITIES REDUCED FROM REVISED 1974/75 LEVELS ARE ROADS, DOWN LM0.6, AND AGRICULTURE AND FISHERIES, DOWN LM0.5. THREE ADDITIONAL AREAS WITH REDUCTIONS OF ABOUT UNCLASSIFIED

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LM0.1 EACH ARE PORT DEVELOPMENT, HOUSING AND TOURISM.

4. REVENUE: THE ESTIMATED BALANCE IN THE CONSOLIDATED FUND (I.E., GOM SURPLUS ACCOUNT) ON APRIL 1, 1975 WILL BE LM11.3. THE ANTICIPATED REVENUE OF LM70.5 FOR 1975/76 IS 21 PERCENT ABOVE THE LM58.1 ORIGINALLY APPROVED IN THE 1974/75 BUDGET, AND IS THE LARGEST EVER PROJECTED, BUT IT IS ACTUALLY FIVE PERCENT BELOW THE 1974/75 REVISED REVENUE FIGURE OF LM74.4.

5. REVENUE FROM CUSTOMS AND EXCISE TAXES CONTINUES TO BE THE LARGEST SINGLE INCOME ITEM. AT LM17.3, IT IS LM1.0 ABOVE THE REVISED 1974/75 AMOUNT AND REPRESENT 25 PERCENT OF TOTAL REVENUE. RENT FOR NATO DEFENSE FACILITIES IS THE SECOND LARGEST REVENUE ITEM, AT LM13.3, OR 19 PERCENT OF TOTAL REVENUE. REVENUE OF LM10.5 FROM INCOME TAX AND LM9.0 FROM THE CENTRAL BANK ARE THE OTHER LARGE ITEMS, RESPECTIVELY LM0.3 HIGHER AND LM1.8 LESS THAN REVISED 1974/75 FIGURES. ALSO INCLUDED IN THE 1975/76 REVENUE ESTIMATE IS LM2.9 IN SOFT LOANS TO BE USED FOR THE PURCHASE OF TELECOMMUNICATIONS EQUIPMENT FROM ITALY; LM2.2 TO BE DRAWN FROM THE "INTEREST-FREE LOAN FROM THE PEOPLE'S REPUBLIC OF CHINA," TO FINANCE ONGONG WORK ON THE RED CHINA DOCK AND FACTORIES BEING BUILT WITH CHINESE ASSISANCE; AND LM0.3 IN THE FORM OF A SOFT LOAN FROM FRANCE FOR THE PURCHASE OF ADDITIONAL TELECOMMUNICATIONS EQUIPMENT. THESE LOANS TOTAL LM5.4, OR EIGHT PERCENT OF ALL REVENUE.

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6. GOM PROGRAMS ANNOUNCED BY FINMIN ABELA AFFECTING REVENUE IN 1975/76 INCLUDE AN INCREASE IN CUSTOMS DUTIES OF ABOUT TEN PERCENT ON LUZURY GOODS, SUCH AS CARPETS, ARMS AND AMUNITION, RADIO AND TV SETNS, CRYSTAL AND MISCELLANEOUS ITEMS. THE MEASURE IS DESIGNED PRIMARILY TO REDUCE IMPORTS, BUT IS EXPECTED TO REALIZE SOME 80 THOUSAND MALTESE POUNDS IN REVENUE AS WELL. NATIONAL INSURANCE STAMPS (I.E.,

CONTRIBUTIONS) WILL BE INCREASED BY 30 TO 59 MALTESE CENTS PER WEEK, WITH THE COST SHARED EQUALLY BY WORKERS AND EMPLOYEES; NO ESTIMATE REGARDING ADDITIONAL REVENUE FROM THIS SOURCE IS YET AVAILABLE. A MINOR INCOME TAX REFORM IS ALSO PLANNED TO SPREAD THE TAX BURDEN MORE EQUITABLY; A REVENUE DECREASE OF LM0.3 IS ANTICIPATED FROM THIS ACTION.

7. BUDGET PRESENTATION SPEECH: FINMIN ABELA, PRESENTING THE FOURTH BUDGET SINCE THE LABOR GOVERNMENT CAME TO POWER IN MALTA IN 1971, LAUDED THE ACHIEVEMENTS OF MINTOFF'S ADMINISTRATION OVER THE PAST THREE AND ONE HALF YEARS, AND OUTLINED A FURTHER "BONANZA" (SO DUBBED BY THE PRO-GOVERNMENT GENERAL WORKERS UNION DAILY "MALTA NEWS") IN THE FORM OF A LM6.3 SOCIAL BENEFITS PACKAGE THAT INCLUDES A COST OF LIVING WAGE INCREASE OF GOVERNMENT AND PARA-STATAL EMPLOYEES (INCLUDING THE ARMED FORCES) OF TWO MALTESE POUNDS PER WEEK, WHICH ALONE IS EXPECTED TO COST THE GOM LM2.6. OTHER
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PLANNED BENEFIT INCREASES ARE NATIONAL INSURANCE PENSIONS, UP 90 TO 150 MALTESE CENTS PER WEEK; CHILDREN'S ALLOWANCES UP 5 TO 15 MALTESE CENTS; SOCIAL ASSISTANCE PAYMENTS, UP 80 TO 161 MALTESE CENTS; MEDICAL ASSISTANCE PAYMENTS, UP 32 TO 67 MALTESE CENTS AND A 20 MALTESE CENT INCREASE IN THE MILK ALLOWANCE. ALL THE INCREASES WILL BECOME EFFECTIVE APRIL 1, 1965, AND ACTUAL PAYMENTS WILL DEPEND ON THE VARIOUS CATEGORIES OF ELIGIBLE RECIPIENTS. IN ADDITION, A CHRISTMAS BONUS OF 36 MALTESE POUNDS WILL BE GIVEN TO ALL GOVERNMENT AND PARA-STATAL EMPLOYEES, INCLUDING MALTA DRYDOCK WORKERS, AT A COST TO THE GOM OF SOME LM1.6. THE GOM INTENDS TO PASS LEGISLATION REQUIRING ALL PRIVATE EMPLOYERS TO PAY THE CHRISTMAS BONUS AS WELL. ABELA WARNED THAT IN THE FUTURE, GREAT SACRIFICES MIGHT BE REQUIRED OF THE MALTESE PEOPLE TO MAINTAIN THEIR PAST GAINS AND TO IMPROVE STILL FURTHER THEIR STANDARD OF LIVING IN THE FACE OF WORLDWIDE RECESSION. HE STRESSED THE IMPORTANCE OF IMPROVING MALTA'S TRADE BALANCE AND THE NEED FOR GREATER INDUSTRIAL OUTPUT AND HIGHER PRODUCTIVITY, ADDING THAT THE GOM PLANNED TO REDUCE NON-ESSENTIAL IMPORTS AND TO DEVELOP IMPORT-SUBSTITUTE INDUSTRIES. ABELA ALSO ATTEMPTED TO JUSTIFY THE GOM POLICY OF SEEKING NEW EXPORT MARKETS IN COUNTRIES "NOT AFFECTED BY INFLATION AND RECESSION,"

BY WHICH IS MEANT THOSE OTHER THAN MALTA'S TRADITIONAL TRADE PARTNERS IN WESTERN EUROPE. ABELA ALSO SAID THAT TO IMPLEMENT THE SEVEN YEAR DEVELOPMENT PLAN WOULD REQUIRE THE EXERTION OF GREATER EFFORT TO ATTRACT FOREIGN CAPITAL AND INVESTMENT OF MALTA AND THE CONTINUANCE OF SOCIALIST DOCTRINE IN PLANNING DOMESTIC ECONOMIC POLICY.

8. COMMENT: EARLY CONSERVATIVE PRESS REACTION TO THE BUDGET HAS REEXPRESSED CONCERN THAT THE GOM HAS TAKEN LITTLE ACCOUNT

OF THE NEEDS OF BUSINESS DURING THE CURRENT RECESSION, WHICH IS
BEING INCREASNGLY FELT BY MALTA'S UNDUSTRIAL AND BUSINESS
COMMUNITY. WHILE THE SOCIAL BENEFITS "BONANZA" WAS NOT
CRITICIZED AS SUCH, THE "TIMES OF MALTA" POINTED OUT THAT THE
FINANCIAL BURDEN BEING IMPOSED ON PRIVATE ENTERPRISE FROM
INCREASED WAGES AND SOCIAL BENEFITS BY THIS BUDGET COMES
AT A TIME WHEN THIS SECTOR OF THE MALTESE ECONOMY IS LEAST
CAPABLE OF SHOULDERING SUCH A BURDEN. THE BUDGET IS LIKELY
TO BE APPROVED BY PARLIAMENT WITH FEW CHANGES, FOLLOWING
SEVERAL WEEKS OF DEBATE. SMITH
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